

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3444-01  
Bill No.: HB 1333  
Subject: Taxation and Revenue - General, Sales and Use; Business and Commerce  
Type: Original  
Date: January 28, 2002

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$1,923,310)	\$0	\$0
School District Trust	(\$621,187)	\$0	\$0
Conservation	(\$77,648)	\$0	\$0
Parks and Soil	(\$62,119)	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$2,684,264)</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0 to (\$931,781)</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

## FISCAL ANALYSIS

### ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow for a sales tax “holiday” for a specified period for specified items.

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.8% of U.S. totals. BAP staff estimates taxable sales for FY2003 to be \$6,802,000,000 and taxable sales for FY 2004 to be \$7,197,000,000.

BAP states, as was the case with similar proposals from last year, there is no information available that addresses what percent of these expenditures would qualify for the exemption or how effective this program would be in so far as motivating the public to shop for clothing during the tax “holiday”.

Officials of the **Department of Revenue (DOR)** state this legislation creates a temporary exemption from state tax for retail sales of clothing from August 9-12. Locals, by ordinance, may opt in or out of the specified sales tax holiday period.

DOR will have to notify all sales tax accounts of the holiday period. 120,000 notification letters will have to be sent to the registered accounts at a cost of \$32,160. This will have to be done in July for the August period. DOR assumes the long sales tax form will need to be sent, causing voucher filers to use the long form for one period only. DOR states this will be confusing and difficult for DOR to explain to the taxpayer. The legislation will also impact the processing of the sales tax returns. DOR estimates a need for one TPT I for every 34,000 additional errors generated, one Clerk II in Pre-edit for every additional 184,000 returns impacted, and one Data Entry Operator I for every 170,000 returns impacted.

DOR states that since this legislation affects the August 2002 period, DOR will need time to notify the businesses. DOR recommends an April deadline for the locals to notify DOR if they opt in for the exemption.

DOR assumes the MITS system will need to be programmed to recognize the new item/tax rate as well as a system test. The changes to MITS will require 692 hours of programming at a total cost of \$23,085. The State Data Center cost to implement the legislation will be \$4,503.

The Department of Revenue did not provide an estimate of revenue loss associated with this proposal.

ASSUMPTION (continued)

**Oversight**, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by BAP and the actual impact similar legislation had on other states. The revenue estimate was based on 4/365 of the FY 2003 taxable sales, resulting in a loss of \$2.7 million in state funds due to the sales tax holiday. No adjustment was made for the \$100 cap. **Also, no adjustment was made for any incentive effect this portion of the proposal might have on spending habits. The actual loss to state funds from this sales tax holiday could be significantly higher than estimated.** Oversight assumes the Department of Revenue will enforce the provisions of the bill through post-audit in the field. If compliance is not monitored, the revenue impact could increase.

**Oversight** assumes the mailing costs would be incurred in July before the August sales tax holiday. In addition, Oversight has included the programming costs requested by DOR. Since DOR, in a prior response to similar legislation did not request additional FTE, Oversight assumes that existing FTE can handle the increased workload of this four day sales tax holiday.

For a similar prior proposal, Oversight contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such “holidays” in 1997, 1998 and 1999. Oversight assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, *the Official Statistics*, Statistical Abstract of the United States: 2000 to determine what Missouri’s taxable sales in a similar period might be. The comparison reveals that by using the Office of Administration, Budget and Planning’s estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. Oversight assumes that the same impact will occur whether the exemption applied to clothing or shoes under \$500 as it would for clothing under \$100. Oversight also assumes that the results could be applied over a four day exemption as it would for a seven day exemption, as it would for a thirty-one day exemption.

**This legislation will decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Cost</u> - Dept. of Revenue (DOR)			
Postage	(\$32,160)	\$0	\$0
Programming & State Data Center	<u>(\$27,588)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	(\$59,748)	\$0	\$0
<u>Loss</u> to General Revenue Fund			
Sales tax holiday	<u>(\$1,863,562)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$1,923,310)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<u>Loss</u> to School District Trust Fund			
Sales tax holiday	(\$621,187)	\$0	\$0
<u>Loss</u> to Conservation Fund			
Sales tax holiday	(\$77,648)	\$0	\$0
<u>Loss</u> to Parks and Soil Funds			
Sales tax holiday	<u>(\$62,119)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT TO ALL STATE FUNDS</b>	<b><u>(\$2,684,264)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2003	FY 2004	FY 2005
<u>Loss</u> to Cities	\$0 to		
Sales tax holiday	(\$559,068)	\$0	\$0
<u>Loss</u> to Counties	\$0 to		
Sales tax holiday	<u>(\$372,712)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT TO LOCAL GOVERNMENT</b>	<b><u>\$0 to</u> <u>(\$931,781)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

### FISCAL IMPACT - Small Business

This legislation could affect small businesses that collect sales tax on clothing. Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt.

### DESCRIPTION

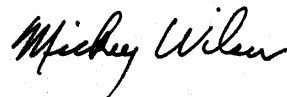
This act creates a state and local sales tax holiday for items of clothing (costing no more than \$100 each) sold during a four-day period in August 2003. Individual political subdivisions may, by ordinance, opt their local sales taxes out of the holiday exemption.

The act has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
Division of Budget and Planning  
States of Texas, Florida and New York



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Acting Director  
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